

How to select a third-party logistics provider (3PL)

From now until 2027, use of third-party logistics providers (3PLs) is expected to increase 61% worldwide. This means that manufacturers, retailers, and other companies are relying more and more on external warehousing and logistical support to store, pack, ship, and distribute their products.¹

Let's look at the three-fold role of a 3PL: commerce enablement, local market access, and customer satisfaction.

As an enabler, 3PLs provide comprehensive back-end infrastructure to their clients who aim to increase delivery efficiency and success without having to completely build out their own storage and distribution network.

3PLs also aim to provide businesses with access to local markets, with facilities strategically located near key population centers. Local storage and rapid delivery of goods directly to customers as well as to retail or other locations can help to support both costs and efficiency.

The third role that a 3PL can play for businesses, especially retailers, is in the area of customer satisfaction. With an "I want it now" and "it better not be broken" mentality, customers demand shipping perfection, even if they don't always get it. To appease these mindsets, many companies rely on their 3PL to successfully streamline and manage the latter half of their supply chain.

Today's business environment rewards these businesses who provide superior customer service.

Selection factors

With many options to choose from and with so much at stake, selecting the right 3PL to support your company is a critical decision. Furthermore, many logistics providers require long-term contracts, which necessitates an informed decision that makes sense both today as well as in the future.

There are several factors you must consider when comparing 3PLs. As some large 3PLs can be viewed as slow-moving, inflexible, and overpriced, we will dissect the criteria that a 3PL should have, even if some traditional providers do not.

There are, however, 3PL providers who do meet all of the criteria detailed below.

Technology – Today's 3PL facilities must be outfitted with the best warehousing management system (WMS) to streamline receiving, documenting, storing, picking, packing, dispatching, and distribution. Your provider also needs the right equipment, staff, and processes to augment the WMS. You also want the 3PL's WMS to integrate with your systems. All these capabilities will ensure the highest levels of efficiency, consistency, and proficiency.



"93% of customers are more likely to make another purchase with the same company after a positive customer service experience."²



¹ "Third-party logistics (3PL) industry worldwide - statistics & facts," June 22, 2023, Statista.com.

² "The Hard Truth About Acquisition Costs (and How Your Customers Can Save You)," June 24, 2022, HubSpot.

Regionality – 3PLs with a series of regionally located warehouses provide you with access to local markets and shorter time to delivery. Consider the shipping impact of a provider with facilities located just on the two US coasts versus a 3PL with locations across all four time zones. Having these local warehouses can mean the difference between overnight and three-day shipments to your customers.

Contracting – Unpredictable events and fluctuating consumer demand mean you need to stay nimble in terms of inventory levels and resources. You can't afford to have substantial overflow stock sitting on shelves nor pay high costs for unused warehouse space. Therefore, you don't want to be locked into long-term contracts. Your business might dictate a three-month engagement with a 3PL in Dallas to support a new product launch in the southern region or a six-month arrangement in Jersey City to support increasing demand in the northeast. Short-term contracts provide this level of flexibility and can reduce risk and cost.

Availability – Surging demand for 3PLs is putting limitations on warehouse space and labor resources across the country. In fact, many providers report having no availability, forcing some businesses to struggle with finding open shelf space. Others are choosing the high-cost, high-risk option of building and operating their own warehousing and logistics facilities. Your 3PL must have ample availability today and seemingly into the future.

Flexibility/customisation – In this economy and competitive environment, you don't know what warehousing and logistics support you are going to need six months or a year from now (let alone next month). You may only require overflow storage for one product line and full storage, picking, packing, and shipping for another. 3PLs that provide flexibility in how and when you turn on and off certain services are extremely valuable. You need to be nimble in order to respond quickly to changing demands and requirements.

Value-added services – While many 3PLs provide storage and shipping services, you may require a selection of services that can support additional needs. Look for providers who offer receiving, storing, kitting, packaging, palletising, picking, shipping, e-commerce fulfillment, product returns, and even disposal. This way you will have whatever level of support you need when you need it.

Questions to ask

The questions below will help you identify the best 3PL partner for your needs.

1. What makes you the most reliable provider for ensuring on-time delivery to our customers?
2. How do your service level agreements work, and what happens if you fail to meet them?

3. Which contracting terms do you offer? Monthly, bi-annually, annually, multi-year?
4. How flexible are you in terms of modifying my contract down the road?
5. How do your rates compare to other 3PLs?
6. What security measures do you have in place to keep our inventory safe?
7. Can you describe your expertise/experience related to my specific industry?
8. How can I integrate your WMS with our internal systems? Do you offer customisable APIs?

Conclusion

The job of selecting a third-party logistics provider is an important one. The choice you make has direct correlations to your annual spend, profitability, customer satisfaction levels, and new market penetration. Take the time necessary to make the most informed selection based on what you require rather than what a provider may offer.

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